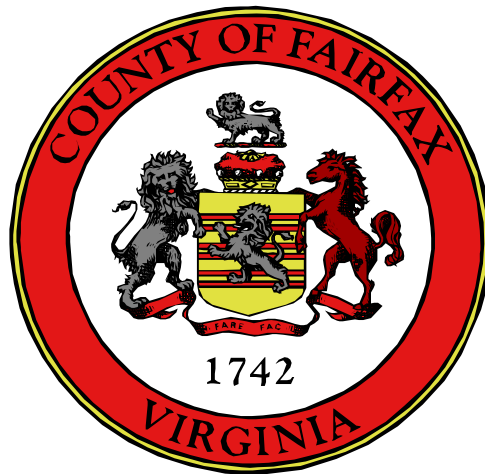


INTERNAL AUDIT REPORT

REVIEW OF FIRE AND RESCUE DEPARTMENT FEE COLLECTIONS



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: April 12, 2001

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the “*Review of Fire and Rescue Department Fee Collections*”

This is a report on the “*Review of Fire and Rescue Department Fee Collections*”. It was performed as part of our FY2001 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Fire and Rescue Department. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

RAC:df

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction	1
Purpose and Scope	1
Methodology	2
Executive Summary	3
Comments and Recommendations	4

Introduction

The mission of the Fire Prevention Division of the Fairfax County Fire and Rescue Department is to prevent fires and the release of hazardous materials, loss of life or injury, property loss, and hazardous conditions, and to limit the consequences when fires or hazardous material releases do occur within Fairfax County to ensure public safety and public health. The Division conducts fire safety inspections of all commercial facilities within the County to accomplish this mission. In addition, when the situation arises, the Fire and Rescue Department responds to hazardous materials accidents that occur that require removal and clean up.

These services are provided through personnel engaged in the inspection of facilities or response to hazardous material incidents whose time and/or materials are billed to commercial establishments.

Fees are billed and collected in the form of Fire Marshall Fees, Permits, and Charges for Services as performed by the Fire Prevention Division, the Resource Management Division, and the Hazardous Materials and Investigative Services Division administrations.

In Fiscal Year 2000, the fees collected for these services were as follows:

• Fire Marshall Fees	\$1,988,724 (Actual)
• Fire Code Permits	\$874,825 (Actual)
• Charges for Services	\$693,247 (Revised Budget)

The benefits of an efficiently run billing and collection operation are significant. Some of these benefits are improved revenue flow, improved cash management, greater interest earnings on investments, greater budgetary control and funds to conduct programs, improved credit worthiness and reduction in borrowing costs, and compliance with revenue laws. Revenue billing and collection administration is an important function of any local government.

Purpose and Scope

As part of our long range audit plan, we examined the billing and collection functions within the Fire and Rescue Department in order to determine if:

- the Department was billing and collecting the maximum amount of revenue to which it is entitled.
- internal controls provide reasonable assurance that all fees are promptly and accurately collected, deposited, recorded and reported to the Fire and Rescue Department.

Our audit included the fees billed and collected for Fire Marshall Fees and Charges for Services in Fiscal Year 2000. It did not include Permit Fees. We did not examine computer system controls for the accounts receivable system in the Fire Prevention Division. This system is a stand-alone personal computer based application developed using Micro-soft Access. It is password protected and is reconciled to FAMIS each month. This audit was performed in accordance with generally accepted government auditing standards.

Methodology

We identified and documented policies, procedures, and internal controls for the billing and collection process. We interviewed billing and collection staff and review supporting documentation and accounting records. We documented the internal controls and procedures in flowcharts and narrative descriptions.

We selected a judgmental sample of billing and collection transactions and tested the following for each transaction:

- There was supporting documentation for each transaction
- Each bill or payment was promptly and accurately recorded in the County's accounting records
- Management reports agreed with the supporting accounting records
- There was supporting documentation and approval of accounts receivables written off or adjusted
- Monthly billing and collection transaction totals agreed with the accounting records and reports.

For FY 2000, we examined the monthly ratio of the total amount collected to the total amount billed. We also calculated the average number of days to collect a bill for a sample of transactions. Reliance as to the integrity of the information tested was based upon the strength of the internal control environment in which it was generated.

Executive Summary

The Fire Prevention Division of the Fire and Rescue Department has a complete receivable reporting system, which includes the periodic evaluation of collection performance and a strong review, approval, and follow up process. In our opinion, the Fire Prevention Division is promptly and accurately collecting, depositing, recording and reporting all the fees it is entitled to with the exception of the accountability of inspection forms in transit from Inspection Services to the billing section of Fire Prevention and the delayed depositing of hazardous materials remittances. There are also areas that require strengthening in relation to segregation of duties, compliance, with County financial policies, efficiencies in the billing process and the security of billing and collection documents and records. These areas are summarized as follows:

- One individual is responsible for posting billed collections to the accounting records, can initiate adjustments to the accounting records, and performs the month end reconciliation of receivables. These duties are incompatible in that they are not segregated and compromises the integrity of the billing and collection process.
- There is no comparison made in total between the input source documents for billing and the bills that are generated. Therefore, there is no assurance that all services provided are billed.
- There are some considerable delays in depositing receipts from hazardous materials incidents. Some of these receipts are of material amounts and results in lost interest earnings and does not comply with the financial policy requirements of the County.
- There were a number of days where no invoices were generated or issued during FY 2000. Delayed invoice preparation and delivery defers the collection of revenues earned and due the County.
- The office premises of the Revenue and Records Section remains unsecured after business hours. This leaves billing documents, deposit and accounting records, and computer equipment exposed to access by unauthorized persons.
- Accounts were written off in FY 2000 without using a uniform length of time to do so. This does not reflect that the full procedures have been applied in an effort to collect past due accounts.

Comments and Recommendations

1. There is no separation of duties between the responsibilities of posting revenue collections to the accounting records, initiating adjustments and charge-off to invoices, and reconciling billings and collections at month-end.

Accounting Technical Bulletin 036, *Billing and Collection Procedures for Billable Revenues* states “It is important that internal accounting controls require segregation of duties. The principle of segregation of duties implies that the person with physical access to cash and other movable assets should not be involved with related record keeping”. Assigning the same individual responsibility for custody and posting of collections to the accounting records, transaction adjustment capability and reconciliation duties eliminates the benefit and control of having one person check another person’s work for accuracy and validity. It also increases the risk of errors and/or irregularities.

Currently staffing is maintained with (3) merit and (5) limited term positions. The limited term positions are required to take a break in service after 11 months. The breaks are mandated to be 4 weeks at one time for each position. This leaves the workload to be balanced among the remaining staff. The section supervisor is charged with duties that were previously performed by staff that are currently absent due to the mandated breaks and the section’s turnover experience.

Recommendation

The functions of posting collections to the accounting records, initiating invoice adjustments and performing month end reconciliations should be separated to prevent the opportunity for irregularities and to preserve the integrity of the billing and collection system. The Fire Prevention Division should reassign the responsibility of either receipt custody or collection posting duties and the responsibility of initiating accounting adjustments to the accounting records to another individual.

Department Response

While all efforts will be made to ensure the supervisor does not assume any of these functions, there are times when this is not possible. During these times, the supervisor of the section will document the reason for the work function and have the accounting technician of the Resource Management Section review the notation prior to document authorization.

2. There is no method in place to ensure that all inspection and plan review services are actually billed or charged.

Accounting Technical Bulletin 036, “*Billing and Collection Procedures for Billable Revenues*”, provides a reference in the text of the Policy Statement that “the County actively pursues the timely collection of all revenues earned. Billable revenue are revenues earned for which payment is not received at the time the goods and services are provided.” The function of performing and documenting testing and inspection services is the inception point and an integral part of the billing process as this function serves as the direct input for the determination of charges to be applied to the establishments receiving the County’s services. The absence of a reference between inspection forms completed and billings generated does not provide assurance that all services have been properly charged.

There are four sources in two branches where inspection form origination occurs that are forwarded to the Revenue and Records Section for billing preparation. These sources are the Fire Protection Systems Testing Branch which consists of three different units, which are the Re-Testing Unit, the Acceptance Testing Unit and the Special Operations Unit. In addition, inspection forms also originate from the Inspections Branch where buildings, occupied premises and other institutions are inspected.

Due to the number and varied types of inspections from multiple sources, it is difficult to quantify and account for the movement of these forms utilizing a common information element. Accountability and control over the supply and movement of completed inspection forms that are the basis for the application of charges for establishments that have received fire inspection and review services.

Recommendation

The Fire Prevention Division needs to determine and implement a method to account for all completed inspections forms so that all inspections performed are billed in a complete and timely manner.

Department Response

The Fire Prevention Division has implemented a policy and procedure that will cover all four types of inspections: testing, retesting, inspections, and fire lanes. A form has been created listing those four types of inspections. The inspection supervisor or his or her designee will complete this form with the number of documents per inspection noted and signed on a daily basis. The package is then transferred to the Revenue and Records Branch where the receiving person will verify the count of documents, and note and sign on the form. Both the Inspections Branch and the Revenue and Records Branch will maintain files of completed forms by month.

3. There were considerable delays in depositing recovery remittances received from some hazardous materials incidents in FY 2000.

Accounting Technical Bulletin 003, “*Bank Deposit Preparation and Recording*”, specifically requires as a matter of procedure that the department “deposit cash receipts with-in 24 hours of collection”. A review of a sample of hazardous material recovery transactions revealed that there were considerable delays in depositing remittances to the bank. A sample of five transaction deposits reviewed totaling \$58,595 revealed delays from 6 to 21 business days when the check date and deposit date were compared. The delayed deposit of remittances to the bank results in a loss of interest earnings, delays the posting to the accounting records as a confirmation of receipt, and increases the risk of loss to the County.

The delays in depositing hazardous material incident recoveries is due to the procedure followed in the posting and approval process that is followed prior to performing the depositing of the funds. The remittance check is initially received in the Hazardous Materials and Investigations Section where it is recorded to the records and an index and sub-object code is recorded on the check. The original check and check copy is forwarded to the Resource Management Section of the Fire and Rescue Department where the Support Services Division posts the check amount to FAMIS and prepares the deposit slip. The FAMIS posting document deposit slip and original check is forwarded to the Captain in charge of the Resource Management Division for approval. Subsequent to approval, the check and associated documents are forwarded to the Revenue and Records Section of the Fire Prevention Division for deposit.

Recommendation

An effort should be made to expedite the depositing of hazardous material recovery remittances to the bank, as these funds are characteristically material in amount. An approved copy of the invoice should be distributed to all persons posting or approving hazardous material recoveries and be maintained in their pending files in order to expedite the depositing of receipts and still maintain the level of internal control over collection and posting. At the time the check is received, it should be deposited and posted to the hazardous materials section's accounting records and a copy of the validated bank deposit slip routed to the Resource Management Division and the Revenue and Records Section for comparison to the approved invoice maintained in the pending file.

Department Response

In the future, all personnel who are responsible for handling and depositing these remittances will date stamp and initial the receipt of the check to provide an audit trail of the time frame involved. All envelopes, routing slips, and other pertinent information will stay with the backup when the deposit is made.

4. There were days during FY 2000 where no invoices were generated for a period up to one week.

Accounting Technical Bulletin 036, "*Billing and Collection Procedures for Billable Revenues*", states that a billing process should include billing cycles to ensure the timeliness of revenue recognition and the timeliness of collecting revenues earned. The average weekly billing for Fire Marshall Fees was \$12,135 during FY 2000. There were a number of days each month where no invoices were generated or issued. No invoices were generated for the week of May 2nd to May 5th, 2000, with the first invoices for the month of May being generated on the 10th of May. Delayed invoice preparation and delivery defers the collection of revenues earned and due the County.

Billings for plan reviews, inspection testing and re-testing invoice runs are prepared in batches. As inspection forms are delivered to the Revenue and Records Section, they must be sorted according to inspection type with research required for those inspections whose charges are to be applied against pre-paid plans escrowed monies. The time required to perform this procedure delays the invoice processing of those inspection forms that can be billed straight from the form itself, due to the fact that one employee is charged with performing all these functions.

Recommendation

A reallocation of resources within the Fire Prevention Division appears to be needed in processing inspection forms for invoice preparation and recording. This reallocation of resources should be fully committed to this task. This would permit a faster turn around time for the processing, preparation and delivery of invoices for services provided to County establishments. This would allow a shorter period for the collection of earned revenues from the time the service is provided.

Department Response

Existing staffing levels in the Revenue and Records Branch do not allow for timely processing of invoices. There is a great deal of time and training to be performed in reconciling files that are used in generating invoices. With the five-month break in a calendar year due to limited term personnel,

the shifting of job responsibilities still exists. During the mandatory breaks, other staff has to assume the extra responsibilities, while still achieving the level of output that is currently in place. The Revenue and Records Branch is cross training personnel to meet the time restraints.

5. The office area used by the Revenue and Records Section of the Fire Prevention Division is left unsecured after working hours permitting unauthorized access to billing documents, deposit documents, accounting records, and computer equipment.

Accounting Technical Bulletin 003, “*Bank Deposit Preparation and Recording*”, and Accounting Technical Bulletin 009, “*Cash Receipts Processing*”, both contain a requirement to “ensure that procedures are in place to ensure the safety of cash receipts and correct and timely deposits.” The area used by the Revenue and Records Section of the Fire Prevention Division is left unsecured after business hours permitting uncontrolled access to records and computer equipment. An unsecured work area creates the potential for the loss of documentation or access to confidential proprietary information contained on the documents or in the computer databases. The Revenue and Records Supervisor indicated that on one occasion the personal computers had been used after hours upon arriving to work the next business day. There is presently no requirement to secure the work area after business hours and no security device to the entrance of the area.

Recommendation

The Fire Prevention Division should initiate a procedural requirement that the Revenue and Records Section be secured after business hours. They should acquire the necessary devices to restrict unauthorized access to the work area in order to protect billing records, processed deposit records, and the sections’ computer equipment.

Department Response

The Fire and Rescue Department has advised the Facilities Management Division that this is an agency-critical issue. Some of the issues that will be considered are door locks, cashier shields, fire resistant file cabinets, and other means to maintain the security of these records. This floor is shared with the Office of the Sheriff, and a study of impact will need to be reviewed with them as well. This project will have to be done in conjunction with the Facilities Management Division.

6. The write-off of past due accounts was not performed in consistent time frames during FY 2000.

Accounting Technical Bulletin 036, “*Billing and Collection Procedures for Billable Revenues*”, suggests a uniform and consistent plan for the evaluation and write-off of past due invoices from the accounting records. Accounting Technical Bulletin 036 recommends a first and second notice be issued for 30 day and 60 day past due accounts respectively. After 90 days has elapsed, a final notice is issued with a provision for the potential loss to be established at that time. This procedure provides a uniform method of assessing and initiating adjustments to the accounting records and follows a uniform treatment of handling past due accounts. The risk of charging accounts off too early, not treating organizations equally in terms of collection policy, and distorting collection reporting are increased by not adhering to a consistent and uniform plan.

The Revenue and Records Section issue notices and contacts establishments maintaining a past due balance. One invoice was written off after being 39 days past due while another invoice was written off after 194 days. In the course of this activity, it is determined that some establishments have gone out of business, are bankrupt, or cannot be located. Nevertheless, a uniform length of time should expire to provide the full opportunity to receive monies due prior to the initiation of a write-off adjustment to the accounting records.

Recommendation

The Revenue and Records section should establish a uniform policy for past due time periods and action taken. A minimum period to keep the account open to collection will reflect that the full procedures have been applied in an effort to collect past due amounts. It will also promote consistent treatment of all establishments in the application of collection attempts.

Department Response

The Revenue and Records Branch has recently initiated a policy to write off bad debts. All accounts will remain open for a minimum of 120 days from the original billing date before they will be considered as non-collectable. Accounts where there is continuing correspondence will remain open until the debt is either collected or it is determined that the effort is not worth the amount of the debt.